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SIPDIS

STATE FOR WHA AND EB
TREASURY FOR OASIS: J.TAYLOR, N.LEE, R.TOLoui AND L.LAMONICA
NSC for H. Cruz

SENSITIVE

E.O. 12958: N/A
TAGS: EFIN PREL ENRG DR
SUBJECT: Electricity Sector Shutting Down in the Dominican Republic

¶1. (SBU) Summary: As more power plants shut down, GODR and energy sector representatives in public recriminations. Negotiators are close to an agreement that would put Cogentrix back on line. End summary.

¶2. (SBU) Nine representatives of the electricity sector briefed the Ambassador on January 23 on the meetings they had last week in Washington with State, Treasury, NSC, IMF, IBD and WB. They described the system as "close to bankruptcy." Representatives of the generating companies described one by one the date that each generating plant will be shut down for lack of fuel. The sector estimates that by the end of January, the country will be back to generating about half of the daily peak demand.

¶3. (SBU) Company representatives assert that approximately \$200 million is needed immediately to buy fuel and avert bankruptcy of at least two of the companies. However, if the cash is not accompanied by actions on tariffs and subsidies, the system cannot recover because even with the new rates that took effect January 1, the wholesale price of electricity is below the retail cost -- and the GODR continues to accumulate arrears on subsidy payments. The pricing gap has been growing daily as the value of the peso continues to decline.

¶4. (SBU) Technical Secretary of the Presidency Carlos Despradel himself considers it impossible for the GODR to seek to subsidize energy, particularly as the peso devalues. "We should tell people we have to pass along the full price, just the way we do with gasoline." He acknowledged, however, that decisions on these matters are not his responsibility and beyond his ability to influence.

¶5. (SBU) In the meantime, Secretary of Finance Calderon appeared on television January 25 and in local papers accusing the generators of extortion and blaming them for the blackouts. He rebuffed recommendations the sector had presented to the GODR and denied that the GODR owed even "one penny" to Virginia-based AES, which is the largest investor in the sector. He said if the companies are bankrupt, "why not declare it?"

COGENTRIX

¶6. (SBU) Since the Dominican Republic has been in a perpetual electricity crisis, it would be tempting to believe that as they have done so many times before, government officials will pull a rabbit out of the hat and keep the system going. The rabbit might be a deal with Goldman Sachs, new owners of COGENTRIX, which is currently in negotiations with the government concerning approximately \$35 million in arrears. COGENTRIX has full fuel tanks, so a settlement could put 300 MW on line quickly. Despradel told emboffs on January 23 it appeared that Goldman Sachs would reduce the amount required to \$24 million if \$12 million were paid promptly. Cogentrix sources have since confirmed agreement on a \$16 million payment, but with a firm demand for cash by January 29, or company lenders will call the Inter-American Development Bank guarantees.

Comment

¶7. (SBU) Failing a COGENTRIX deal, we would expect increasing long blackouts during the next two weeks and cannot entirely rule out the possibility of a system shut down. This means the country will again be living with prolonged blackouts that will intensify as the country braces for a national strike, enhancing public discontent and the possibility for vigorous protest.

HERTELL